Supreme Court, U.S.
FILED
FEB 2 1996
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No. 95-808

In The

Supreme Court of the United States

October Term, 1995

SOUTHEASTERN EXPRESS CO., ET AL.,

Petitioners,

vs.

TRIAD SYSTEMS CORPORATION,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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2 Melville B. Nimmer, *Nimmer on Copyright* (1995) 1

I. INTRODUCTION

Contrary to Triad's inappropriate, *ad hominem* assertions, this case does not concern "larceny" or whether Southeastern "stole" Triad's software. This case concerns a customer's right to use software *it has already licensed from Triad*. As Southeastern's petition for *certiorari* and the three *amicus curiae* briefs in support of Southeastern demonstrate, the Ninth Circuit's decision in this case will cripple the service economy in this country, and, as a result, will prevent a computer owner's right to use software for which that customer has paid a valid license fee. This result is directly contrary to the copyright laws, which favor public access to copyrighted works.

This Court should grant *certiorari* in order to address issues vital to our economy that were both raised before the Ninth Circuit and passed on by that Court. The need for a decision by this Court on the applicability of copyright laws to software is even greater now than when the petition in this case was filed because of the 4-4 decision in *Lotus Development Corporation v. Borland International, Inc.*, 49 F.3d 807 (1st Cir. 1995), *aff'd*, 64 U.S.L.W. 4059 (Jan. 16, 1996).

Despite Triad's attempt to trivialize the issue, the stakes in this case are huge, as is demonstrated by the three *amicus curiae* briefs filed in support of Southeastern's petition. At issue is whether a copyright holder may prevent a computer owner who has rightfully paid a license fee from contracting with anyone but the manufacturer for service. This requires an analysis of the fundamental distinction between control over expression and promotion of use under the copyright laws. *See Baker v. Selden*, 101 U.S. (11 Otto) 99, 103-105 (1978); 2 Melville B. Nimmer, *Nimmer on Copyright*, §8.1[A] at 8-13 (Rel. 36-12/94). The issue is not whether software developers should be expected simply to give away their programs, but whether once having sold or licensed those programs, the copyright laws entitle the copyright holder to dictate who shall run those programs on the lawful possessor's behalf.[1]

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[1] Triad's obliteration of the well-recognized distinction in copyright law between use and copying is demonstrated by the odd locution it uses in various parts of its brief: "[i]t is undisputed that Southeastern also uses, and in doing so

II. FACTS

A. Triad misrepresents the facts in the case in an attempt to obscure the real issues involved in this appeal.

The legal findings adopted by the lower courts in this case to date have far-reaching implications for computer users, competition and the proper role of copyright. To obscure these implications, Triad resorts to mischaracterization of both the record and what this case is about. Disingenuously, Triad depicts Southeastern as a competitor willfully purloining copies of proprietary software developed for the use of Triad field service employees. Moreover, Triad claims that the "thief" tricked the courts below into believing the case was about something else, Triad's operating software, which Triad claims plays no role in this suit. None of the above is correct.

1. Triad misrepresents the nature of the software at issue.

Triad mischaracterizes the software at issue as "service software" developed by Triad for use solely by Triad personnel. In fact, Triad sued Southeastern for the alleged infringement of both its operating system software and utilities software. The Ninth Circuit expressly acknowledged this (*See* Petition Appendix at 4) and the injunction prohibits "copying" of each.[2] The operating system and utilities programs are collectively known and licensed to customers as "operating software." *See* E.R. at 459-60 [Trial

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copies, Triad's operating system software. . . . " Triad Opp. at 3 n.2; *see id.* at 1, 5.

[2] There is one limited exception. The injunction does not prohibit Southeastern from turning on a client's computer, which would cause certain portions of the operating system to load automatically into the computer's RAM. But the injunction forbids any subsequent use of the computer that would cause any other software to move into RAM. As one member of the Ninth Circuit panel noted, allowing Southeastern to turn on the computer was like "throwing a brick to a starving man." Triad Opposition Appendix at 39. Like a car mechanic, a computer repair person must be able to do more than merely turn on the ignition in order to make repairs.

Exh. 380].[3] Utilities and operating system software are bundled and delivered together with the computer hardware when licensed or sold to the customer because they are essential to routine use of nearly any computer. E.R. 123.2-123.8, E.R.S. at 552. For example, MS-DOS, Microsoft's popular operating system, comes with many utilities like those subject to the injunction in this case, including a file-management utility, a data compression utility, and a backup and restore utility.

Triad's claim that the utilities programs, while licensed to the customer, are for use chiefly by Triad technicians is false. Triad's own Field Service Coordinator testified at trial that the utilities were "mainly for use by the customer" in order to perform the necessary utility/maintenance functions. C.R. 393, E.R. 333-34; C.R. 47, E.R. 1, 3-5. This is software that the customer has acquired for a reason – it is part and parcel of the operational computer the customer purchased from Triad. The customer, then, should be the one to decide who will use those licensed programs to repair the customer's computer.

2. Whether or not Southeastern obtains a license from Triad is irrelevant to the issue of fair use.

Triad mischaracterizes Southeastern's objection to paying Triad an additional license fee on top of that already paid by the customer in an attempt to obscure the real issues in this case. Triad Opposition at 7-8. Throughout the trial, Southeastern made it very clear that it believed the specific use made by Southeastern of its customers' licensed software was a fair use, and on that basis alone objected to the payment of a license fee to Triad for such use. C.R. 389, S.R. 229, C.R. 390, S.R. 260-62. The quote Triad gives from Southeastern's president illustrates that very point. Mr. Barnes testified that he couldn't imagine paying a fee for "helping a customer fix his computer with software that he rightfully has."

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[3] Citations are to the Excerpts of Record Southeastern filed in the Ninth Circuit (E.R.); the Supplemental Excerpts of Record Southeastern filed in the Ninth Circuit (E.R.S.), and the clerk's record (C.R.).

S.R. 260-62. That is not an unreasonable point of view, as the district court observed, C.R. 396, E.R. 409, and as the law reviews unanimously agree.

Triad's claim that it is willing to license the software to Southeastern, even if true, is irrelevant. The issue in the case is solely whether a manufacturer who has licensed software to a customer may prevent that customer from using that software freely.[4]

III. ARGUMENT

A. The *MAI* and Section 117 issues were both raised below and passed on by the Ninth Circuit; thus, they are ripe for review.

Triad's contention that the petition for *certiorari* must be denied because the issue emanating from *MAI Systems Corporation v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed,* 114 S. Ct. 671 (1994), was not raised below has no merit. This Court has traditionally precluded a grant of *certiorari* "only when the question presented was not pressed or passed upon below." *United States v. Williams*, 504 U.S. 36, 41 (1992); *see also Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1098, n.8 (1991). This rule operates in the disjunctive, "permitting review of

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[4] In its factual recitation, Triad inappropriately accuses Southeastern's counsel of tricking the district court into conducting an unnecessary trial. The evidence refutes this allegation.

Triad claims that Southeastern deceived the court below into believing that Southeastern did not use utilities software in its customers' possession, and that this case was really only about operating software that includes neither utilities nor diagnostics. Triad Opp. at 8-9. Supposedly, based on that contention, the district court denied Triad's motion for summary judgment and allowed trial to proceed on the narrow issue of whether the use of the "operating system" alone could constitute a fair use. *Id.*

To the contrary, as part of its own motion for summary judgment on fair use, Southeastern acknowledged using its customers' utilities software. C.R. 129, E.R.S. 535-37. Triad's story requires one to believe that Judge Smith failed even to read the papers submitted by Southeastern. Moreover, Judge Smith herself acknowledged in a March 18, 1994, order, well before the trial, that Southeastern used service utilities and other "non-operating system" software. C.R. 252, E.R. 84.

an issue not pressed as long as it has been passed upon. . . ." *Williams*, 504 U.S. at 41. This is particularly true where the issue is "in a state of evolving definition and uncertainty, and one of importance to the administration of federal law." *Virginia Bankshares*, 501 U.S. at 1098 n.8 (internal quotations and citations omitted).[5]

As Southeastern demonstrated in its petition, the *MAI* and Section 117 issues were raised below, and were ruled on by the Ninth Circuit. The appeals court recognized that Triad's whole case was based on *MAI*, and reached its decision using *MAI*: "Triad, to show that Southeastern made copies of its protected works, relies on the MAI decision. It is clear that Southeastern's activities are 'copying' for purposes of the Copyright Act. MAI, 991 F.2d at 519." Southeastern Pet. App. at 10-11. The Court also ruled on the Section 117 issue. The Ninth Circuit held that "owners" of Triad software could use the software the way they wished, but did not give the same rights to licensees of Triad software. *Id.* at 4-5.

Even assuming the *MAI* and Section 117 issues were not raised in the briefs, as Triad claims, both issues clearly were raised during oral argument, in some instances by the Ninth Circuit panel itself.[6] This is clearly sufficient for this Court to reach the issues. In *Cohen v. Cowles Media Co.*, 501 U.S. 664, 666-67 (1991), the issue before the Court on *certiorari* was never tried, briefed or argued by the parties below. Instead, the issue was first raised by one of the justices during oral argument before the Minnesota Supreme Court.

In this case, the Ninth Circuit panel raised the *MAI* issue, specifically asking "How do you deal with MAI?" Triad Opposition to Petition Appendix ("Triad Opp. App.") at 19. Counsel for

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[5] Triad attempts to undercut the citation to *Virginia Bankshares* by claiming that the issues raised in this appeal are "routine." One need look no farther than the numerous law review articles Southeastern cited in its petition criticizing the *MAI* line of cases to see that the issues involved in this appeal are novel and important. Southeastern Petition for *Certiorari* at 5-6 n.2.

[6] Triad levels another *ad hominem* attack at Southeastern's counsel for misrepresenting the record at the Ninth Circuit hearing. A review of the transcript Triad filed along with its brief reveals that every quote Southeastern cited was correct and in context.

Southeastern responded that "we can live with MAI [because it] is an incomplete case because it does not do the fair use analysis." *Id.* In other words, if a computer program loaded into RAM is considered a copy under *MAI*, then as long as such a copy is considered a fair use, independent service organizations can live with the decision.[7] Triad significantly leaves out the remaining quote from its brief, Triad Opp. at 13. Triad omits the fact that counsel for Southeastern goes on to list the Law Review articles that uniformly criticize *MAI*.

The Ninth Circuit panel also inquired as to the status of *MAI*, stating that "as I recall, the Supreme Court didn't dismiss – didn't deny certiorari. They settled it." Triad Opp. App. at 57. At the end of the hearing, the panel stated that it was "pretty well stuck with MAI." *Id.* at 58.[8]

The Section 117 issue was also dealt with at the Ninth Circuit hearing. Counsel for Southeastern argued that a previous Ninth Circuit panel had ruled that Section 117 should be interpreted to apply to rightful possessors. "I have to admit that MAI disagrees with that. So because MAI disagrees with that, either the Court will have to deal with MAI in some way, or just say MAI was incomplete because it doesn't go to the fair use analysis. So I think we should win on 117, but we certainly win on 107." Triad App. Opp. at 21.

Triad goes through a tortured explanation of why there is no split in the circuits regarding the Section 117 issue. Despite Triad's meandering explanation, the fact remains that *MAI* ruled that Section 117 does not apply to *licensed* software and the court in *Vault Corporation v. Quaid Software, Ltd.*, 847 F.2d 255, 257 n.2 (5th Cir. 1988), ruled that Section 117 did apply to the facts in that case, which concerned *licensed* software.

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[7] This is in accord with the position of CONTU. *See* below at pp. 7-8.

[8] Counsel for Triad also raised the *MAI* issue, arguing that "*MAI* enjoined this very thing." Triad Opp. App. at 43. Indeed, counsel for Triad admonished the Ninth Circuit that it could not "brush aside" *MAI*, as counsel for Southeastern argued, but urged that the panel was bound by what was done in *MAI*. *See* Triad Opp. App. at 45.

B. Whether loading software into RAM constitutes a "copy" under the Copyright Act is a novel, important question on which the lower courts and litigants need this Court's guidance.

Triad's argument that the *MAI* case is merely routine and certainly not novel is truly remarkable in the face of observations by both the district court and the Ninth Circuit regarding *MAI*. The district court stated that "MAI has caused a lot of furor. It's a new concept. It's a far-reaching concept. And I think it will take a couple of years for the law to shake out and see where it stands and what defenses are available to it." RT at 2608. The Ninth Circuit, moreover, stated that "This area is in a state of transition, I'm convinced. I don't know where it's going. I have no idea. But there are problems here. And I can see in part your [Southeastern's] side of the argument. But we're pretty well stuck with MAI. And there we are." Triad Opp. App. at 58.[9]

In support of its disingenuous position that *MAI* is not a new concept, Triad points to the CONTU Report. Triad Opp. at 15. Triad's citation to CONTU is entirely inapposite, which is revealed by a review of the language Triad cites in its opposition brief. The Commission stated as follows:

> Because the placement of a work into a computer is the preparation of a copy, the law should provide that persons be able to use them freely without fear of exposure to copyright liability. . . . It is easy to imagine, however, a situation in which the copyright owner might desire, for good reason or none at all, to force a lawful owner or possessor of a copy to stop using a particular program. One who rightfully possesses a copy of a program, therefore, should be provided with a legal right

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[9] Triad's citation to *Apple Computer, Inc. v. Formula International*, 562 F. Supp. 775 (C.D.Cal. 1983), and *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255 (5th Cir. 1988) is inapposite. *Apple* did not hold that copying from a diskette into a computer's Random Access Memory was a copy. *Apple* dealt with Read Only Memory and diskettes, which are permanent forms of memory storage in contrast to RAM, which is temporary. Triad also misconstrues *Vault*, which held only that loading a program from outside a computer into the computer's memory (i.e. ROM) creates a copy of the program. *Vault*, 847 F.2d at 260. *Vault* did not deal with the issue in this case, which is loading of a program from ROM into RAM.

> to copy it to the extent which will permit its use by that possessor.

Final Report of National Commission on New Technological Uses of Copyrighted Works ("CONTU"), H.R. Rep No. 12207, 96th Cong., 2d Sess. pt.1. at 22. The CONTU Commission also noted the distinction between use of a computer program and proliferation of that program: "Thus, one could not, for example, make archival copies of a program and later sell some while retaining some for use." *Id.* It is clear from this context that CONTU intended licensees to be permitted to use computer programs, but not to proliferate copies of those programs for sale.

C. The *Triad* decision conflicts with *Kodak*

In yet another attempt to obscure the issues, Triad argues that *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992), is an antitrust case (and only a summary judgment case) whereas *Triad* is a copyright infringement case.[10] Therefore, Triad claims, the two cannot by definition conflict. Triad Opp. at 24-25. This argument does not withstand scrutiny. As the three *amicus* briefs filed with this Court in support of Southeastern's position demonstrate, the Ninth Circuit's opinion does in fact conflict with *Kodak*, and will undermine the entire service industry in this country if allowed to stand.

Triad also mischaracterizes this Court's rulings in *Kodak*. Triad claims that "[a]ll this Court held was that a potentially monopolistic refusal to deal could not be justified on the ground that ISOs should build copiers too." Triad Opp. at 28. To the contrary, this Court's holding in *Kodak* applied not merely to the facts of that case, but to all cases. Indeed, this Court recognized that requiring a competitor to enter two markets in order to

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[10] As the dissent noted in *Kodak*, "[t]his is not, as the Court describes it, just 'another case that concerns the standard for summary judgment in an antitrust controversy.' . . . Rather, the case presents a very narrow – but extremely important – question of substantive antitrust law. . . . " *Kodak*, 504 U.S. at 486 (Scalia, J., dissenting).

compete in one was one of the "evils" proscribed by the antitrust laws. *Kodak*, 504 U.S. at 484.[11]

The Ninth Circuit's decision in *Triad* requires ISOs to develop their own software, and thus explicitly requires those ISOs to enter two markets (the software market and the maintenance market) in order to compete for service business. This is precisely what *Kodak* prohibited. Triad's claim that software is an investment in the service market borders on the absurd. Triad developed the software at issue in order to run the Triad hardware. Moreover, the fact that software is used to perform service does not mean that it is included in the "service market." In the *Kodak*, case, this Court recognized that an ISO need not enter either the equipment market *or the parts market* in order to compete with Kodak. *Kodak*, 504 U.S. at 405. Thus, this Court acknowledged that parts, although used in repairing computers, are in a different market from service itself. The same is true of software in this case.

Equally absurd is Triad's claim, and the Ninth Circuit's holding, that Southeastern's use of rightfully-licensed software somehow diminishes the market for Triad's software. To the contrary, *the software has already been licensed by the customer*, thus Triad has already obtained its revenue for the use of that software. If Southeastern proliferated copies of Triad software and sold them to customers, then Triad's market would be diminished. However, given that Southeastern only uses software that has already been licensed, Southeastern clearly has not supplanted demand for Triad's software.

The Supreme Court rejected a similar argument advanced by Kodak (which not coincidentally was represented by Triad's counsel). This Court stated that if Kodak's argument were correct, then one would expect that ISOs would, in fact, *enhance* sales of

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[11] Triad's argument that Southeastern presented no evidence that it was incapable of developing software for use with Triad systems is both false and irrelevant. Southeastern's president testified at trial that Southeastern had neither the size nor resources to do so and explained why one could not simply create alternative utilities without also creating alternative operating system and applications software. E.R. 356-58, 359.1. Moreover, whether Southeastern could develop the software is not the issue. This Court has explicitly held that a company need not enter two markets in order to compete in one market.

copiers, not hinder them.[12] The same is true in this case. If Triad computer purchasers knew that there were more companies out there like Southeastern to service their equipment, Triad might sell more computers, and thus increase software license revenues.

CONCLUSION

The high-technology world awaits this Court's first pronouncement on how the copyright law impacts on software. The Ninth Circuit, which has jurisdiction over the center of that world, has created bad law and bad policy out of whole cloth. Supreme Court action is appropriate and necessary.

Respectfully Submitted,

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Dated: February 1, 1996

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[12] The Supreme Court stated as follows: "According to the theory, one would have expected Kodak to take advantage of lower-priced ISO service as an opportunity to expand equipment sales. Instead, Kodak adopted a restricted sales policy consciously designed to eliminate the lower-priced ISO service, an act that would be expected to devastate either Kodak's equipment sales or Kodak's faith in its theory." *Kodak*, 504 U.S. at 472.